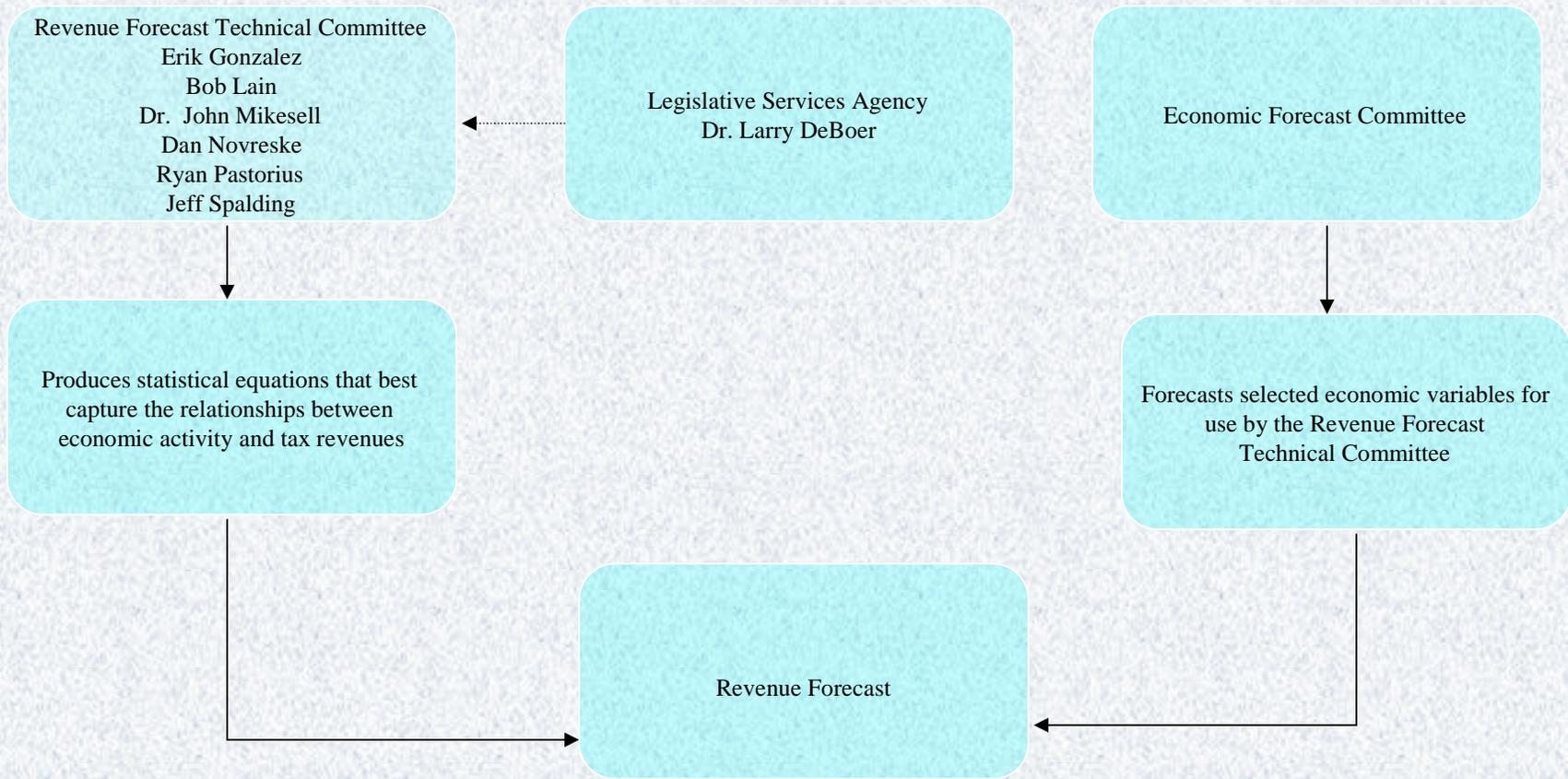


**GENERAL FUND AND PROPERTY TAX REPLACEMENT FUND
REVENUE FORECAST**

**REVENUE FORECAST TECHNICAL COMMITTEE
DECEMBER 14, 2005**

GENERAL FUND AND PROPERTY TAX REPLACEMENT FUND REVENUE FORECAST PROCESS



APRIL 2005 FORECAST

	FY 2005 Forecast	FY 2005 Actual Revenue	Difference	% Difference
Sales Tax	\$4,935.9	\$4,960.4	\$24.5	0.5%
Individual Income Tax	\$4,144.9	\$4,213.2	\$68.4	1.6%
Corporate Income Tax	\$801.8	\$824.8	\$23.0	2.9%
Gaming	\$589.3	\$584.7	- \$4.6	-0.8%
Cigarette	\$291.4	\$287.9	- \$3.5	-1.2%
Alcoholic Beverage Tax	\$14.1	\$14.3	\$0.2	1.5%
Inheritance	\$140.0	\$152.4	\$12.4	8.9%
Insurance	\$175.7	\$183.1	\$7.4	4.2%
Interest	\$34.2	\$44.9	\$10.7	31.1%
Misc. Revenue	\$163.4	\$170.8	\$7.4	4.5%
Total	\$11,290.6	\$11,436.5	\$145.8	1.3%

SOURCES OF FORECAST ERRORS

- Measurement errors in the variables used to forecast
- Incorrect specification of the equations used
- Errors in the forecast of the independent variables

DEVELOPMENTS SINCE THE APRIL 2005 FORECAST

- Sales tax growth has moderated slightly from 5.1% in FY 2005 to 4.9% through the first five months of FY 2006.
- The collection and distribution of local income taxes, which contributed to the exceptionally strong State income tax growth in FY 2005, are reducing state income tax growth in FY 2006.
- Of the \$81.3M that has been assessed as a result of the *Aztec Gaming Corporation vs. Indiana Department of State Revenue*, one-half remained unpaid as of June 30, 2005. Roughly one-half of that unpaid amount has since been remitted.
- Gaming revenues are being negatively impacted by increased competition, gasoline prices, and perhaps capacity constraints.

LOCAL INCOME TAX COLLECTIONS AND DISTRIBUTIONS

- Local income taxes are received throughout the year in the form of withholdings and estimated payments.
- The information accompanying these payments is not sufficient to accurately segregate local income taxes from state income taxes for allocation to the appropriate counties.
- The allocation of local income taxes to the appropriate counties must be based on filed tax returns.
- Current law requires that the distribution of local income taxes in the coming calendar year be based on the tax returns processed during the most recently completed state fiscal year.
- These distributions are taken from state revenues each month so that local income tax collections received in the past are distributed from current revenues.
- The earlier processing of returns in FY 2005, accelerating income growth in 2004, and lowered levels of local income tax distributions in 2005 contributed to an unusually large increase in local income tax distributions for CY 2006.
- These distributions, which represent collections received by the State in the past, will have a material impact on reported state income tax collections during the forecast period.

FORECAST UPDATE OVERVIEW

- The FY 2006 forecast has been reduced by \$44.8M or 0.4%
- Forecasted growth over FY 2005 = 2.4% or \$276.2M
- The FY 2007 forecast has been reduced by \$29.4M or 0.2%
- Forecasted growth over FY 2006 = \$636.2M or 5.4%

STATE REVENUE FORECAST
Combined General Fund and Property Tax Replacement Fund
Fiscal Years 2006 and 2007
December 14, 2005
(in millions)

	Actual 2005	Prior Forecast 2006	Updated Forecast 2006	Diff. From Prior Forecast	Percent Diff. From Prior Forecast	Percent Growth Over 2005	Prior Forecast 2007	Updated Forecast 2007	Diff. From Prior Forecast	Percent Diff. From Prior Forecast	Percent Growth Over 2006
<u>General & PTR Funds</u>											
Sales	4,960.4	5,187.3	5,174.1	-13.2	-0.3%	4.3%	5,451.1	5,472.1	21.0	0.4%	5.8%
Individual	4,213.2	4,371.4	4,208.1	-163.3	-3.7%	-0.1%	4,659.9	4,522.5	-137.4	-2.9%	7.5%
Corporate	824.8	757.4	810.7	53.3	7.0%	-1.7%	767.5	803.8	36.3	4.7%	-0.9%
Subtotal "Big Three"	9,998.4	10,316.1	10,192.9	-123.2	-1.2%	1.9%	10,878.5	10,798.4	-80.1	-0.7%	5.9%
Gaming	584.7	626.1	596.7	-29.5	-4.7%	2.0%	678.8	636.3	-42.5	-6.3%	6.6%
Cigarette	287.9	292.6	298.4	5.8	2.0%	3.6%	293.5	300.2	6.7	2.3%	0.6%
AB Taxes	14.3	14.2	15.0	0.8	5.6%	4.8%	14.4	15.2	0.8	5.6%	1.3%
Inheritance	152.4	120.0	140.0	20.0	16.7%	-8.1%	120.0	140.0	20.0	16.7%	0.0%
Insurance	183.1	175.7	175.7	0.0	0.0%	-4.0%	175.7	175.7	0.0	0.0%	0.0%
Interest	44.9	49.3	70.0	20.7	42.0%	56.1%	54.0	75.6	21.6	40.0%	8.0%
Other	170.8	163.4	224.0	60.6	37.1%	31.1%	163.4	207.5	44.1	27.0%	-7.4%
Subtotal	853.4	815.2	923.1	107.9	13.2%	8.2%	821.0	914.2	93.2	11.4%	-1.0%
<u>Total General & PTR Funds</u>	11,436.5	11,757.4	11,712.7	-44.8	-0.4%	2.4%	12,378.3	12,348.9	-29.4	-0.2%	5.4%

STATE REVENUE FORECAST
Detail for General Fund and Property Tax Replacement Fund
Fiscal Years 2006 and 2007
December 14, 2005
(in millions)

	<u>Actual 2005</u>	<u>Prior Forecast 2006</u>	<u>Updated Forecast 2006</u>	<u>Diff. From Prior Forecast</u>	<u>Percent Diff. From Prior Forecast</u>	<u>Percent Growth Over 2005</u>	<u>Prior Forecast 2007</u>	<u>Updated Forecast 2007</u>	<u>Diff. From Prior Forecast</u>	<u>Percent Diff. From Prior Forecast</u>	<u>Percent Growth Over 2006</u>
<u>General Fund</u>											
Sales	2,443.6	2,572.5	2,564.5	-8.0	-0.3%	4.9%	2,703.3	2,713.8	10.4	0.4%	5.8%
Individual	3,633.4	3,759.4	3,610.4	-149.0	-4.0%	-0.6%	4,007.5	3,889.4	-118.1	-2.9%	7.7%
Corporate	824.8	757.4	810.7	53.3	7.0%	-1.7%	767.5	803.8	36.3	4.7%	-0.9%
Subtotal "Big Three"	6,901.8	7,089.3	6,985.6	-103.7	-1.5%	1.2%	7,478.4	7,406.9	-71.5	-1.0%	6.0%
Cigarette	287.9	292.6	298.4	5.8	2.0%	3.6%	293.5	300.2	6.7	2.3%	0.6%
AB Taxes	14.3	14.2	15.0	0.8	5.6%	4.8%	14.4	15.2	0.8	5.6%	1.3%
Inheritance	152.4	120.0	140.0	20.0	16.7%	-8.1%	120.0	140.0	20.0	16.7%	0.0%
Insurance	183.1	175.7	175.7	0.0	0.0%	-4.0%	175.7	175.7	0.0	0.0%	0.0%
Interest	44.9	49.3	70.0	20.7	42.0%	56.1%	54.0	75.6	21.6	40.0%	8.0%
Other	170.8	163.4	224.0	60.6	37.1%	31.1%	163.4	207.5	44.1	27.0%	-7.4%
Subtotal	853.4	815.2	923.1	107.9	13.2%	8.2%	821.0	914.2	93.2	11.4%	-1.0%
<u>Total General Fund</u>	7,755.2	7,904.5	7,908.7	4.2	0.1%	2.0%	8,299.4	8,321.1	21.7	0.3%	5.2%
<u>PTR Fund</u>											
Sales	2,516.8	2614.8	2,609.6	-5.2	-0.2%	3.7%	2,747.8	2,758.3	10.6	0.4%	5.7%
Individual	579.8	612.0	597.7	-14.3	-2.3%	3.1%	652.4	633.2	-19.2	-2.9%	5.9%
Gaming	584.7	626.1	596.7	-29.5	-4.7%	2.0%	678.8	636.3	-42.5	-6.3%	6.6%
<u>Total PTR Fund</u>	3,681.3	3,852.9	3,804.0	-48.9	-1.3%	3.3%	4,078.9	4,027.8	-51.1	-1.3%	5.9%
<u>Total General & PTR Funds</u>	11,436.5	11,757.4	11,712.7	-44.8	-0.4%	2.4%	12,378.3	12,348.9	-29.4	-0.2%	5.4%

While the Revenue Forecast Technical Committee strives to produce the best possible forecasts for each revenue source, it is unlikely each component of this forecast will prove to be completely accurate. The Committee believes that in total it has produced a realistic and responsible forecast.